The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

SUMMARY FOR 1951 REAL ESTATE OUTLOOK

The following paragraphs continue our regular practice of summarizing the Roy Wenzlick annual forecasts in our Real Estate Trends Bulletin.

Real estate activity	Will, in all probability, decline; however, we expect a slow drop, particularly during the early part of the year. Activity in properties not affected by credit controls may even show an increase. However, the sale of new homes can be expected to drop rather sharply, particularly after the middle of the year.
Real estate values	We believe that most of the scarcity premium has now disappeared. On the other hand, rising construction costs will probably send values of new properties higher and the credit restrictions on new building, which will make older properties more desirable, will cause the values of these older properties to increase also.
Rent controls	The outlook here is for certain continuation with little possibility of increases in ceilings. The possibility that all rental units may be put under control should not be overlooked.
Real estate mortgage activity	Mortgage activity on older buildings will probably still be pretty close to its present level but the activity on new buildings will be cut down rather sharply by credit restrictions. It will be a few more months, however, before the full effect of these credit restrictions will be felt.
Foreclosures	There will be little, if any, rise in the foreclosure index during the coming year. As a matter of fact, it would not be at all surprising to see the index move even lower.
Mortgage interest rates	There is nothing apparent in the present picture that leads us to expect any worth while rise in interest rates.
Real estate taxes	Along with all other types of taxes, those on real estate may be expected to continue their rise.

Leases

In inflationary periods percentage leases offer many advantages to the owner of a property, particularly if these leases have a rather high minimum rent written into the lease. Over a period of years we believe that leases of this type are the fairest to both owner and tenant.

Construction volume

There has been no official word from the government that it has changed its mind regarding the 850,000 nonfarm housing units it will allow during 1951. We are inclined to agree with leaders in the building industry that the present credit restrictions will not permit this high a volume. Unless some change in the present set-up is made, it seems to us that residential construction volume will be below 800,000 units in 1951.

Commercial properties

Generally speaking, good locations will continue to pay a good return, but beware of poorly located or marginal stores.

Office buildings

In most cities demand for office space will exceed or just about equal the supply; therefore, the general outlook for office buildings is for them to continue to occupy a very strong position. There are a handful of cities where construction of new office building space has been overdone, and the older buildings in these cities may soon begin to suffer from increasing vacancies.

Construction costs

Will probably continue to rise. There is certainly little hope of decreases of any worth while magnitude.

Home buyers

Anyone contemplating purchase of a home had better go ahead. Construction costs are probably going up and credit restrictions may be extended and made more drastic.

Farm values

Most farm lands are overpriced at the present time. Due to the fact that so many people are seeking farm land as a hedge against inflation and also because Congress seems determined to take care of the farm interests, we believe that farm lands will certainly not drop and will perhaps increase considerably.

Real estate credit restrictions

It seems rather strange, but credit restrictions can be used as an argument to both buy and sell real estate. Anyone planning to buy a home runs the risk of having to put up a higher down payment if credit restrictions are made more stringent. It seems to us, therefore, that anyone in the market for a piece of property has much to lose by waiting. The price is virtually certain to go up and the credit terms stand a good chance of being tightened.

On the other hand, anyone holding up on the sale of a property in hope of getting a higher price is running a risk of tak-

Real estate credit restrictions (cont.)

ing a loss. Right now conventional loans on older properties (built prior to October 12, 1950) are not restricted by Regulation X. For this reason these properties are going to be in greater demand and will generally command a better price than they would have three or four months ago. If Regulation X is extended to these properties (as has been done by VA and FHA restrictions), their values will drop rather sharply.

REAL ESTATE ACTIVITY

Since October, national real estate activity has dropped about six points. The decline has been from 46.4 to 39.5 points above the long-term computed normal. As far as individual cities are concerned, however, there has been no clear-cut pattern. Twenty-five per cent of the cities making up the index have shown increases in activity during the October-December period. Another 25 per cent have shown no change and the remaining 50 per cent have shown a decline. Boston and Seattle have had the biggest rises during these two months, while Tulsa and Pittsburgh have had the biggest drops.

During 1950 the highest level of activity came during August, when the index rose to its (revised) level of 47 points above normal. This level was higher than any point reached during the boom of the twenties and makes 1950 one of the biggest boom years in real estate history. We should remember that the declines in 1951 will start from a very high level.

REAL ESTATE MORTGAGE ACTIVITY

The national emergency is naturally having a very upsetting effect on most sectors of the economy. Its effect on mortgage lending, however, is rather unique. One of the measures adopted under the emergency is the control of real estate credit, thereby limiting real estate loans to comparatively conservative margins. On the other hand, the inflation that will accompany the emergency will make low-equity loans sounder than they apparently were in the more immediate past. Thus, because of the national emergency, low-equity loans are now a good deal safer, but also because of the emergency they cannot be made.

Like real estate activity, mortgage lending reached its 1950 peak in August, when our index rose to 213.8. Since then it has declined to a reading of 201.5. This is still an unusually high level and we expect the decline to be slow.

The mortgage activity index was at a good deal higher level during the boom of the twenties, but a considerable portion of the activity consisted of second and third mortgages. It was also boosted along by refinancing of the short-term mortgages commonly used during that period. Present-day lending practically requires much less junior financing and the amortized loans demand comparatively little refinancing. So, today's level actually represents a lot more new mortgage business than does the higher level of two decades past.

The fact that mortgage activity rose higher in 1950 than in 1946 (when real estate activity reached its peak) is accounted for by the much larger number of new homes

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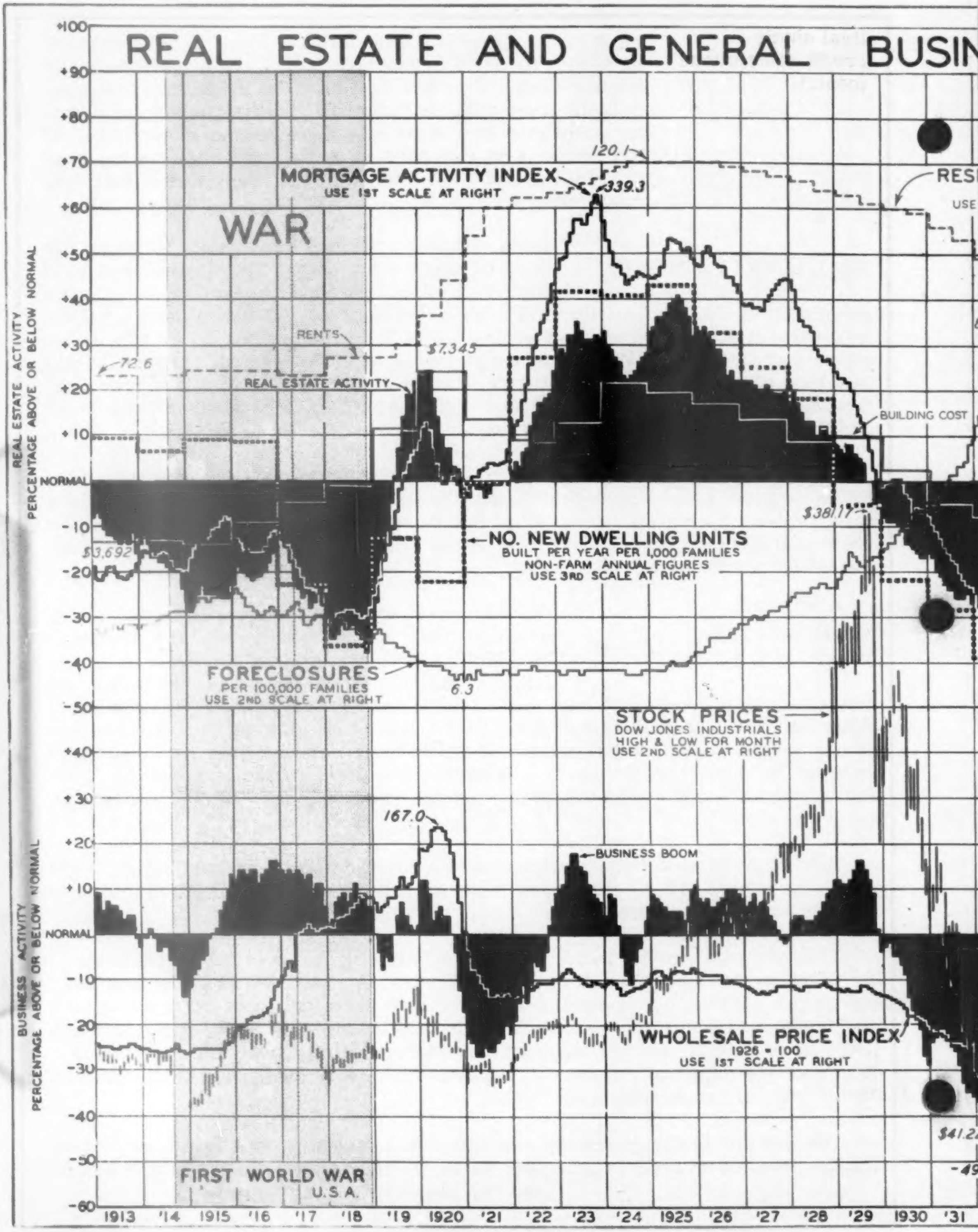

REAL ESTATE AND GENERAL BUSIN
WAR
MORTGAGE ACTIVITY INDEX
USE 1ST SCALE AT RIGHT
120.1
339.3
RESI
USE
RENTS
$7,345
72.6
REAL ESTATE ACTIVITY
BUILDING COST
NO. NEW DWELLING UNITS
BUILT PER YEAR PER 1,000 FAMILIES
NON-FARM ANNUAL FIGURES
USE 3RD SCALE AT RIGHT
$3,692
$381.17
FORECLOSURES
PER 100,000 FAMILIES
USE 2ND SCALE AT RIGHT
6.3
STOCK PRICES
DOW JONES INDUSTRIALS
HIGH & LOW FOR MONTH
USE 2ND SCALE AT RIGHT
167.0
BUSINESS BOOM
WHOLESALE PRICE INDEX
1926 = 100
USE 1ST SCALE AT RIGHT
$41.22
-49.
FIRST WORLD WAR
U.S.A.
REAL ESTATE ACTIVITY
PERCENTAGE ABOVE OR BELOW NORMAL
BUSINESS ACTIVITY
PERCENTAGE ABOVE OR BELOW NORMAL
NORMAL
+100
+90
+80
+70
+60
+50
+40
+30
+20
+10
-10
-20
-30
-40
-50
-60
1913
'14
1915
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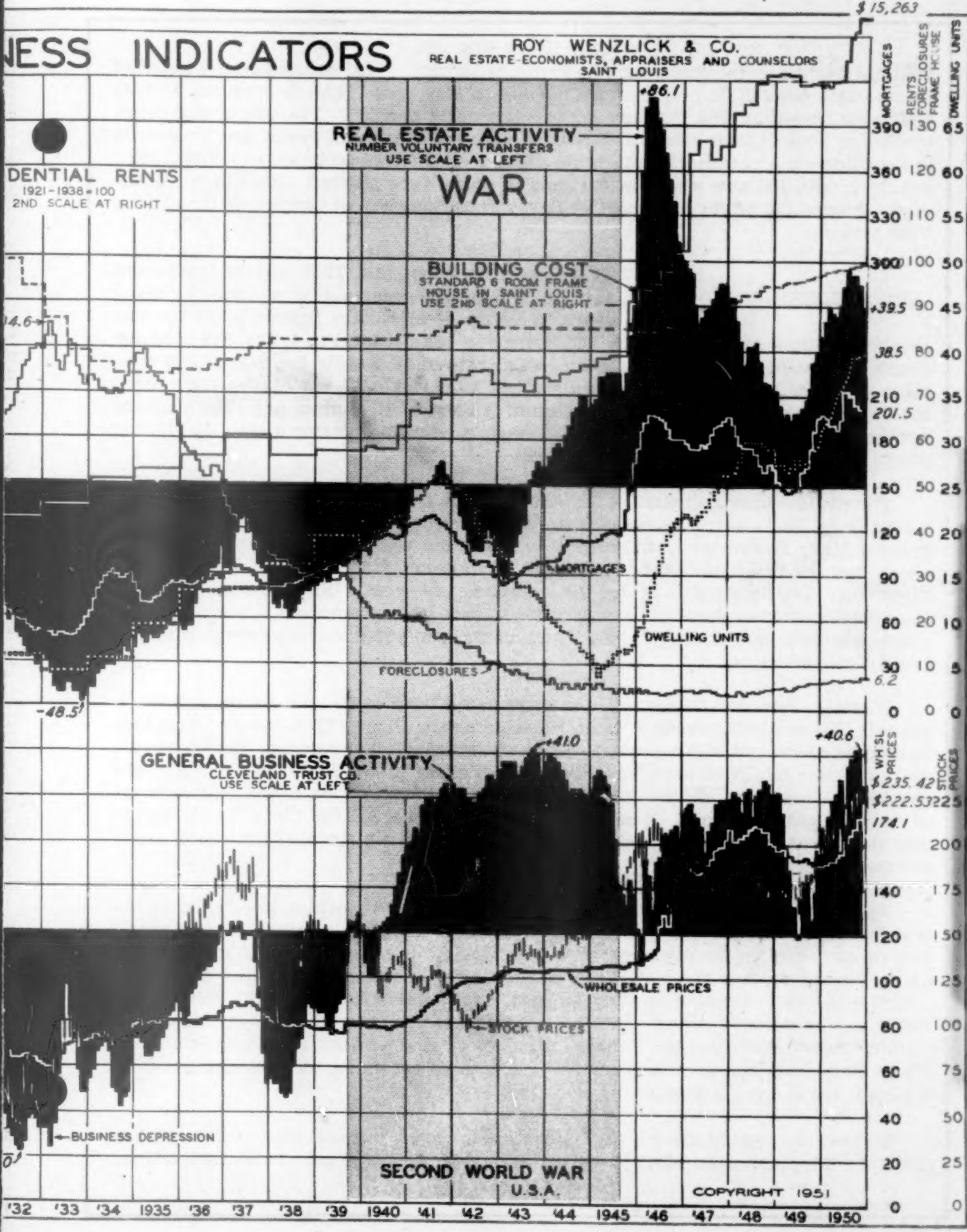
'19
1920
'21
'22
'23
'24
1925
'26
'27
'28
'29
1930
'31


NESS INDICATORS
ROY WENZLICK & CO.
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS
SAINT LOUIS
REAL ESTATE ACTIVITY
NUMBER VOLUNTARY TRANSFERS
USE SCALE AT LEFT
DENTIAL RENTS
1921-1938=100
2ND SCALE AT RIGHT
WAR
BUILDING COST
STANDARD 6 ROOM FRAME
HOUSE IN SAINT LOUIS
USE 2ND SCALE AT RIGHT
MORTGAGES
DWELLING UNITS
FORECLOSURES
GENERAL BUSINESS ACTIVITY
CLEVELAND TRUST CO.
USE SCALE AT LEFT
WHOLESALE PRICES
STOCK PRICES
BUSINESS DEPRESSION
SECOND WORLD WAR
U.S.A.
COPYRIGHT 1951
$15,263
+86.1
+39.5
38.5
201.5
6.2
-48.5
+41.0
+40.6
$235.42
$222.53
174.1
MORTGAGES
RENTS FORECLOSURES FRAME HOUSE
DWELLING UNITS
WH'SL PRICES
STOCK PRICES
'32 '33 '34 1935 '36 '37 '38 '39 1940 '41 '42 '43 '44 1945 '46 '47 '48 '49 1950

(cont. from page 19)
sold in 1950 than in the peak year of real estate activity. Real estate activity reached its all-time peak of 86 points above normal in May 1946. The year ending in May 1946 saw less than 400,000 new residential units started. Therefore, the overwhelming bulk of real estate sales were sales of older properties and frequently did not involve a new mortgage. This picture changed considerably in 1950, when nearly 1,400,000 new nonfarm residential units were started. This high volume of new homes called for a proportionately greater number of mortgages than in the 1946 period.

CONSTRUCTION

There is little doubt that 1950 will be the record year in residential construction volume for many years to come. Preliminary figures place the December volume at 95,000 units and bring the year's total to 1,395,600 nonfarm residential units started. This is an annual rate of 38.5 units for every 1000 nonfarm families and is the highest rate since 1926, when it was 4144. The record building rate was reached in 1925, when it rose to 46.6 units per 1000 nonfarm families. In order to equal that rate with our present population almost 1,700,000 starts in a single year would be required.

The preliminary estimate of 95,000 starts in December 1950 contained no explanation of the unusual increase over the November total of 85,000 starts. As a general rule, December is the lowest month of the year for new construction volume, and it seems odd that the volume of December 1950 should exceed that of November. Our first guess is that the increase came from a large number of multifamily units started ahead of time in order to beat the amendments to Regulation X. These amendments to Regulation X are certain to put a serious crimp in multifamily construction.

There is, however, some relief in sight in the form of the new National Defense Housing Bill now being studied. This bill will restore liberal FHA-insured financing in defense areas and will provide government assistance in extending water, sewer, gas and other facilities necessary to expand housing in defense areas. So far, the defense areas have not been designated, but they will certainly include most of the metropolitan areas. Of course, the government might let Tighe Woods designate the defense areas by indicating which areas he still feels need rent control due to insufficient housing.

We believe that commercial construction is more vulnerable to stringent control than almost any other type (with the possible exception of amusement places). The recently enacted 30-day restriction is probably a trial balloon which may or may not be hauled down at the end of the 30-day period. Chances are that commercial construction will require Federal licensing for an indefinite period. Next on the list for direct controls will in all probability be industrial building. It will be easier, however, to secure Federal permission to construct industrial buildings. There is no definite word on an N.P.A. freeze order on residential construction, although it has been discussed.

The reason behind the N.P.A. stop order on new commercial construction is to conserve materials vital to the defense effort, while the credit restrictions

(cont. on page 24)

INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)

January 1951

SIX-ROOM BRICK HOUSE
(FRAME INTERIOR)*
Content: 23,100 cubic feet
1,520 square feet
Cost 1939: $ 6,400
(27.7¢ per cubic foot; $ 4.21 per square foot)
Cost today: $15,819
(68.5¢ per cubic foot; $10.41 per square foot)
INCREASE OVER 1939 = 148%

FIVE-ROOM BRICK VENEER HOUSE*
Content: 24,910 cubic feet
1,165 square feet
Cost 1939: $ 5,440
(21.8¢ per cubic foot; $ 4.67 per square foot)
Cost today: $14,063
(56.5¢ per cubic foot; $12.07 per square foot)
INCREASE OVER 1939 = 159%

SIX-ROOM FRAME HOUSE*
Content: 24,288 cubic feet
1,650 square feet
Cost 1939: $ 5,671
(23.4¢ per cubic foot; $3.44 per square foot)
Cost today: $15,247
(62.8¢ per cubic foot; $9.24 per square foot)
INCREASE OVER 1939 = 169%

6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT
Content: 12,119 cubic feet
992 square feet
Cost 1939: $3,117
(25.6¢ per cubic foot; $3.14 per square foot)
Cost today: $8,250
(68.1¢ per cubic foot; $8.32 per square foot)
INCREASE OVER 1939 = 164%

*Costs include full basement.

(cont. from page 22)
issued by the Federal Reserve Board and VA and FHA are to arrest inflation.

CONSTRUCTION COSTS

As most of you know, we have been expecting slightly lower or fairly steady construction costs for the last two or three years. In 1949 we had a period of slowly dropping costs and our feeling was that it would go on. However, the tremendous demands for labor and material that resulted from the resurgence of residential construction sent costs back up.

We also felt that the credit restrictions would shrink demand and thereby drop prices a bit. Now we believe that any worth while cost drops are very, very far in the future and construction costs will possibly go even higher than they are now. We think this is because building materials and building labor are going to be in tight supply to meet our defense needs and that the government efforts to control inflation will not be entirely successful.